



STUART INVESTMENT  
MANAGEMENT LIMITED

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April 2010 was another mildly positive month on almost every front, and the trend is continuing at the time of writing. The TSX gained 1.44% and the Dow Jones Industrial Average, the S & P 500 and the NASDAQ advanced 1.40%, 1.48% and 2.64% respectively over March. The Canadian Dollar closed flat against the US Dollar after rising above par for several days during the month.

The improved Canadian economy and its currency's strength resulted in non-residents purchasing an additional net total of \$6.72 billion in Canadian securities in February. Since January 2010 these net purchases have totaled \$100.7 billion! Canada's trade surplus also recorded a larger-than-expected \$1.4 billion in February. In addition, Canadian corporate bond sales doubled in Q1, 2010 with \$21.6 billion being issued versus \$10.4 billion a year earlier, and consequently yield premiums have fallen to a 2 ½ year low, while the economy was expected to grow at 5.5% in the first quarter.

The rebound in the equity and debt markets allowed the Healthcare of Ontario Pension Plan (HOOPP) to record a 15% rate of return last year and hit a record high of \$31.1 billion. It is now 102% funded, which means the healthcare workers of Ontario's pensions appear to be safe for the time being. The Canada Pension Plan Investment Board also took the opportunity to invest \$100 million in an India focused private equity fund. Finally in Ontario, the new 13% Harmonized Sales Tax kicked in starting May 1, 2010, combining the Ontario Provincial Sales Tax and the GST and extending the old PST effectively to many previously exempt items.

### **SOUTH OF THE BORDER**

The month ended with New York reporting a 9-year record high temperature of 89°F on April 30<sup>th</sup> versus a more normal 66°F. The heat was also ratcheted up dramatically on **Goldman Sachs**, which was subjected to a criminal probe by the US Justice Department for its handling of certain asset-backed securities during the 2007-2009 meltdown in that market. Several days of congressional hearings into the matter resulted in the jury still being out on Goldman with the stock down 15.6% in spite of a huge Q1 earnings surge! Continuing the theme of extreme heat, an explosion on a large offshore drilling rig operated by **Transocean Ltd.** of Zug, Switzerland for **BP PLC.**, of the UK, caused the loss of 11 lives and the rig to sink in 5,000 feet of water, spewing crude oil into the Gulf of Mexico. The leak continues at the time of writing and an oil slick the size of Prince Edward Island threatens wildlife, shrimp, and sport fishery in the Gulf. President Obama immediately suspended all offshore drilling activities off the US, less than a month after he ended the 20 odd-year moratorium on drilling in new US offshore waters.

Two of SIML's old favourites reported good earnings with **Freeport-McMoran Copper & Gold Inc.** reporting Q1 income up almost 21 times at \$897 million and a doubling of its dividend to \$1.20 p.a., while **DuPont's** Q1 earnings rose \$1.13 billion, causing the company to raise its guidance for the year significantly. **General Motors Co.** has rebounded enough from its near-death experience in 2008, to enable it to repay US\$8.1 billion of bailout loans it got from the US and Canadian Governments, and to announce significant investments in plants and new models. **Apple Inc.'s** new "iPad" tablet computer's introduction was a

massive success with over 300,000 being sold on the first day of sales, and sales of approximately 5 million projected for the first year.

As predicted in our April **Market Commentary**, President Obama appointed Janet Yellen as Vice-Chairperson of the Federal Reserve Bank, and has filled the remaining two vacancies on the seven member Board with Sara Raskin of Maryland and Peter Diamond from MIT. Supreme Court Justice John Paul Stevens, the court's oldest and most liberal member, will retire in July 2010 allowing the president to make his second high court appointment.

The much ballyhooed return of Tiger Woods to the US Masters at Augusta ended with Phil Mickelson beating Woods, and matching Woods' record 5-under par Masters score of 2001!

### **GREEK FABLES AND THE WRATH OF GOD**

Much of April was consumed with the fear of a Greek Sovereign Bond default and the potential spread of the contagion to other vulnerable European countries such as Portugal, Ireland, Spain, and the largest - Italy! After much internal soul searching, the European Union and the International Monetary Fund agreed to a €110 billion bailout for Greece, with stiff opposition and legal challenges against the bailout by German taxpayers, all on the eve of critical elections in both Germany and the U.K. In Spain, the official jobless rate now exceeds 20% and Standard & Poor downgraded Spanish debt, after earlier downgrading Greek debt to "Junk" status. Somehow, during all the capital market chaos in Europe, Russia managed to sell \$5.5 billion in bonds at a record low of 3.741% for 5 years, its first issuance since Russia's default in 1998, and the second largest emerging market debt offering on record! Presidents Medvedev and Obama then signed a third Strategic Arms Limitation Treaty in Prague, which will slash the number of nuclear warheads by a third, and more than halve the number of missiles, aircraft and submarines carrying them.

Iceland, a country which has already caused financial chaos in Europe, is now causing geographic, economic and travel chaos as a result of the eruption of the Eyjafjallajokull volcano on its

southern tip. Thick volcanic ash from the volcano was blown over most of Europe for several days causing massive travel disruptions as all air traffic

in and out of most of Europe was halted for over a week out of concern for the safety of the aircraft having to fly through the ash. At the time of writing, sporadic shutdowns of airports and air routes continue, causing billions of dollars in losses to airlines, hotels, car rental companies and tour companies, not to mention the inconvenience to stranded passengers. Needless to say, rail and sea ferry operators will have a great quarter in Europe!

On the other side of the world, China endured highs and lows, when a massive earthquake killed over 1,100 people in a remote mountainous area in Western Tibet. Almost simultaneously, "Expo 2010" kicked off in Shanghai with a lavish ceremony attended by no less than President Sarkozy and wife Carla Bruni of France, and Presidents Lee Myung-Bak and Kim Yong-nam of South and North Korea, respectively. Another mine disaster in China had a happier ending when 115 miners were rescued after being trapped in a flooded coal mine for over a week. Chinese GDP growth continued on a tear at 11.9% and the renminbi has risen at about 3.3% in forward markets this year in spite of China recording its first trade deficit in 6 years! Growth in manufacturing in March caused the Chinese authorities to consider tightening its lending regulations and to contemplate implementing a resource tax at the "proper" time, aimed at narrowing the growing wealth gap in China.

In Brazil, **Vale SA**, another SIML favourite, announced it has now signed new, flexible iron ore pricing agreements with "97% of the company's client base", a move which was mirrored by its two major iron ore competitors, **BHP Billiton Ltd.** and **Rio Tinto Group**. Separately, Vale paid \$2.5 billion for iron ore deposits which were originally seized from Rio Tinto by the Guinean Government in 2008. This could lead to long lasting litigation, but production of up to 100 million tonnes from the deposits is expected in 2013.

Poland lost its President, his wife and the top levels of its military, political, financial and church elite when an aging Polish military Tupolev aircraft

crashed during an attempted landing in foul weather near the notorious Katyn Forest Massacre site which was the destination for the group.